

10 Common Grant Audit Issues

1. Labor costs based on grant budget or pre-determined allocations rather than actual time records.

Support for salaries and wages must reflect an after-the fact distribution of the actual activity of each employee. Budget estimates or other distribution percentages determined before the services are performed are prohibited.

- OMB Circular A-21, Cost Principles for Educational Institutions.
- OMB Circular A-87, Cost Principle for State, Local, and Indian Tribal Governments.
- OMB Circular A-122, Cost Principles for Non-Profit Organizations

2. Automated Clearing House (ACH) requests exceed actual and pending disbursements.

Cash advances (i) are limited to the minimum amounts needed and are to be timed in accordance with the actual, immediate cash requirements and (ii) are to be as close as is administratively feasible to the actual disbursements by the recipient. Recipients must maintain procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and their disbursement by the recipient or sub-recipient.

- Higher Education, Hospitals, and other non-profit organizations. 40 CFR 30.21, 30.22
- State, local, and Indian Tribal governments. 40 CFR 31.20, and 31.21

3. Expenditures benefitting more than one grant are charged directly to a single grant or are allocated without a supportable basis.

Expenditures which benefit multiple grants must be allocated to those grants on a basis that reasonably matches the benefit received to the cost charged.

- OMB Circular A-21, Cost Principles for Educational Institutions.
- OMB Circular A-87, Cost Principle for State, Local, and Indian Tribal Governments.
- OMB Circular A-122, Cost Principles for Non-Profit Organizations

4. Excessive charges related to less-than-arms-length transactions.

Lease versus purchase decisions must be made based on what is most advantageous to the government. If a lease is not an arms-length transaction, the government grant can only be charged up to the amount that would be allowed had title to the property vested in the government unit (i.e., "costs of ownership"). Less-than-arms-length leases include those where (i) one party to the lease is able to control or substantially influence the actions of the other; or (ii) both parties are parts of the same governmental unit.

- OMB Circular A-21, Cost Principles for Educational Institutions.
- OMB Circular A-87, Cost Principle for State, Local, and Indian Tribal Governments.
- OMB Circular A-122, Cost Principles for Non-Profit Organizations

5. Inadequate support for costs claimed (allowable, allocable, and reasonable).

Generally, accounting records and supporting documents must be retained for 3 years after submission of the final financial status report.

- Higher Education, Hospitals, and other non-profit organizations. 40 CFR 30.53
- State, local, and Indian Tribal governments. 40 CFR 31.42

6. Expenditures incurred outside the approved budget period or outside the approved project scope.

7. Untimely financial reporting and grant closeout.

Recipients generally must submit (i) Financial Status Reports (FSRs) within 30 days after reporting periods and (ii) all financial, performance, and other required reports, including the final FSR, within 90 days after the expiration or termination of the grant.

- Higher Education, Hospitals, and other non-profit organizations. 40 CFR 30.51 and 30.52
- State, local, and Indian Tribal governments. 40 CFR 31.41 and 31.50

8. Absence of indirect cost rate proposals.

Non-profit organizations are required to submit initial indirect cost proposals to the cognizant agency after

an award has been made. Non-profit organizations that have previously established indirect cost rates must submit a new indirect cost proposal to the cognizant agency within six months after the close of each fiscal year.

For state and local governments, all departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation to support those costs. The proposal and related documentation must be retained for audit in accordance with the records retention requirements contained in the OMB Circular A-102. Indirect cost proposals must be developed (and, when required, submitted) within six months after the close of the governmental unit's fiscal year, unless an exception is approved by the cognizant Federal agency. Governmental units are not required to submit their indirect proposals unless they are specifically requested to do so by the cognizant agency. Where a local government only receives funds as a sub-recipient, the primary recipient will be responsible for negotiating and/or monitoring the sub-recipient's plan.

Each Indian tribal government desiring reimbursement of indirect costs must submit its indirect cost proposal to the Department of the Interior (its cognizant Federal agency).

For state, local, and Indian Tribal governments, each indirect cost rate proposal shall be accompanied by the certification identified in OMB Circular A-87.

-Non-profit organizations. OMB Circular A-122

-State, local, and Indian Tribal governments. OMB Circular A-87

9. Failure to follow procurement regulations.

A grantee must follow regulations for procurement of property and services under a grant. Grantees must perform a cost or price analysis in connection with every procurement action.

- Higher Education, Hospitals, and other non-profit organizations. 40 CFR 30.40 - 30.48

- State, local, and Indian Tribal governments. 40 CFR 31.36

10. Inadequate Financial Management System.

Financial systems must track costs by grant budget line item (i.e. personnel, fringes, supplies, contractual, etc). Each FSR submitted must be adequately supported and reconciled to the general ledger. A separate fund with its own set of accounts should be set up for each grant; funds of other grants, projects, or indirect activities may not be commingled. Records must identify the source and application of funds for federally sponsored activities. The financial system must provide for effective control over and accountability for all funds, property, and other assets. Recipients shall safeguard all such assets and assure they are used solely for authorized purposes.

- Higher Education, Hospitals, and other non-profit organizations. 40 CFR 30.21

- State, local, and Indian Tribal governments. 40 CFR 31.20

OMB Circulars are available from <http://www.whitehouse.gov/omb/circulars/>

40 CFR is available from <http://www.gpo.gov/nara/cfr/index.html>